

Commodity Spotlight

Exporters' Wheat Stocks Remain Large

Global wheat consumption will outpace production for a third year, causing worldwide wheat stocks to fall, according to USDA forecasts. Foreign wheat stocks in 2000/01 are projected down more than 12 million tons from the previous year, and are the smallest since 1981/82. Exporters' stocks nevertheless remain large, keeping a lid on prices. The extent of an expected increase in world wheat trade is likely to be crucial for wheat prices in 2000/01.

World wheat production in 2000/01 is predicted to fall 4 million tons from 1999/2000, mainly the result of low prices and drought, while wheat consumption is forecast down 3 million tons. An expected drop of 12 million tons in China, the world's largest wheat producer, accounts for most of the projected 1 percent downturn in global production. Reduced government support and declining wheat prices caused a reduction in area. Drought in crucial wheat-producing areas of the North China Plain during the spring growing season accelerated the growth cycle and led to an early-maturing crop, but heavy rains in the southern part of the Plain during the first days of June delayed harvest and reduced quality. China's production is forecast at 102 million tons, the lowest in 6 years.

Further, drought in Eastern Europe and across North Africa (e.g., Morocco and Tunisia) and parts of the Middle East (e.g., Iran) is lowering production. These declines more than offset record highs in the European Union (EU) and South Asia, and increased production in Russia and Turkey. In addition, neither Canada nor Australia is expected to match last year's exceptional yields, and U.S. output is forecast lower as average yield declines.

In Eastern Europe a year ago, it was flooding that cut production. This year's crop was reduced by drought in April and May, a crucial time for wheat growth in Central and Eastern Europe. Reductions are forecast for Austria, Poland, the Czech Republic, Slovakia, Hungary, the former Yugoslavia, Bulgaria, and Romania, as well as Moldova.

Partly offsetting these forecast reductions, Pakistan and India are reporting record wheat crops. A serious lack of rainfall across key South Asia growing areas, particularly in Pakistan and western India, had little effect, because most of the crop is irrigated. In addition, Pakistan increased its wheat area, boosting production to a record 21 million tons. Although India reduced its wheat area slightly, favorable weather in the eastern growing areas is expected to contribute to a record crop of 74 million tons.

Worldwide wheat consumption is still outstripping production by almost 13 million tons, but consumption in 2000/01 is projected at almost 3 million tons below that forecast for the previous year. Most of the decline is in feed use, with

reduced wheat feeding in China and the U.S. more than offsetting greater feed use in Europe.

Lower production or tight wheat supplies are expected to reduce nonfeed consumption (mostly food use) in a number of regions, including Eastern Europe, the former Soviet Union, the Middle East, and Sub-Saharan Africa. Nonfeed wheat consumption is also expected to decline slightly or to stagnate in China, Japan, South Korea, Thailand, and Taiwan. Sluggish wheat demand in 2000/01 is coinciding with improved economic conditions—in many countries incomes are high enough that consumption of a staple food like wheat is influenced more by population growth and tastes and preferences than by fluctuations in price or income.

Global stocks are expected to decline for the third straight year in 2000/01. China's stocks are expected to decline most, projected to be down over 35 percent. Reportedly, however, the country's stocks of wheat are still quite large, albeit of questionable quality. (Because China does not publish any direct estimates of its wheat stocks, the amount of wheat being stored by the millions of wheat producers in that country is not known.) Large stocks of wheat, corn, and rice are straining grain storage capacity.

Levels of wheat imports by major purchasers and levels of stocks in major exporting countries, are key to market prospects this year. The largest importers—Iran, Brazil, and Egypt—are expected to boost imports, largely because of their own tight supplies. Lower wheat supplies in China are expected to lead to higher imports—projected at 3.5 million tons, up from 1 million in 1999/2000—mainly for quality-conscious markets in the south. Largely offsetting these increases is a drop in Pakistan's imports from 2.5 million tons to only 50,000.

Major exporters' wheat stocks are forecast to decline in 2000/01, including forecast drops of 2 million tons in Canada and Australia combined and a slight decline in the U.S. But total production by the five major exporters should reach 233 million tons, up 7 million tons. Record production is expected to boost stocks almost 2 million tons in the EU, largely offsetting the declines in other exporting countries,

Although world wheat stocks in 2000/01 are forecast to drop 10 percent to 114 million tons, U.S. prices are forecast little changed from a year earlier. Exporters' supplies, despite some tightening, appear adequate to meet import demand at prevailing prices. However, world wheat trade in 2000/01 is expected to reach its highest level in nearly 10 years, and further increases would likely reduce exporters' stocks, with a resultant price rise. **AO**

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